

FINANCIAL ANALYSIS ASSESSMENT CRITERIA

(The Assessment Criteria should be read in conjunction with OSFI's Supervisory Framework)

ROLE OF FINANCIAL ANALYSIS

The Financial Analysis function performs in-depth analysis of the institution's financial and operating results independently of the business units and prepares management reports for Senior Management and the Board. This function is generally found as a separate unit only in larger institutions.

QUALITY OF FINANCIAL ANALYSIS

The following statements describe the rating categories for the assessment of the Financial Analysis function's independent analysis and reporting of the institution's financial and operating results for Senior Management and the Board.

An overall rating of the Financial Analysis function considers both its characteristics and the effectiveness of its performance in executing its mandate. Characteristics and examples of performance indicators that guide supervisory judgement in determining an appropriate rating in the context of the nature, scope, complexity, and risk profile of the institution are set out below.

Strong

The mandate, organization structure, resources, methodologies and practices of the Financial Analysis function meet or exceed what is considered necessary, given the nature, scope, complexity, and risk profile of the institution. Financial Analysis has consistently demonstrated highly effective performance. Financial Analysis characteristics and performance are superior to generally accepted industry practices.

Acceptable

The mandate, organization structure, resources, methodologies and practices of the Financial Analysis function meet what is considered necessary, given the nature, scope, complexity, and risk profile of the institution. Financial Analysis performance has been effective. Financial Analysis characteristics and performance meet generally accepted industry practices.

Needs Improvement

The mandate, organization structure, resources, methodologies and practices of the Financial Analysis function generally meet what is considered necessary, given the nature, scope, complexity and risk profile of the institution, but there are some significant areas that require improvement. Financial Analysis performance has been generally effective, but there are some significant areas where effectiveness needs to be improved. The areas needing improvement are not serious enough to cause prudential concerns if addressed in a timely manner. Financial Analysis characteristics and/or performance do not consistently meet generally accepted industry practices.

Weak

The mandate, organization structure, resources, methodologies and practices of the Financial Analysis function are not, in a material way, what is considered necessary, given the nature, scope, complexity, and risk profile of the institution. Financial Analysis performance has demonstrated serious instances where effectiveness needs to be improved through immediate action. Financial Analysis characteristics and/or performance often do not meet generally accepted industry practices.

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FINANCIAL ANALYSIS CHARACTERISTICS*	
<p>The following criteria describe the characteristics to be used in assessing the quality of the Financial Analysis function's independent analysis and reporting of the institution's financial and operating results for Senior Management and the Board. The application and weighting of the individual criteria will depend on the nature, scope, complexity, and risk profile of the institution and will be assessed collectively, together with the Financial Analysis function's performance, in rating its overall effectiveness.</p>	
Essential Elements	Criteria
1. Mandate	<p>1.1. Extent to which the function's mandate establishes:</p> <ul style="list-style-type: none"> a) Clear objectives and enterprise-wide authority for its activities; b) Authority to carry out its responsibilities independently of the business units; c) Right of access to the institution's records, information and personnel; and d) A requirement to provide recommendations on strategic and/or business opportunities, as well as on management information system changes needed to enhance decision-making.
	<p>1.2. Extent to which the mandate is communicated within the institution.</p>
2. Organization Structure	<p>2.1. Appropriateness of the stature and authority of the function head within the organization to enable the function to be effective in fulfilling its mandate.</p>
	<p>2.2. Extent to which the function head has direct access to Senior Management.</p>
	<p>2.3. Appropriateness of the function's organization structure.</p>
	<p>2.4. Extent to which the function is independent of the operating units.</p>
3. Resources	<p>3.1. Adequacy of the function's processes to determine the required:</p> <ul style="list-style-type: none"> a) Level of resources necessary to carry out responsibilities; b) Qualifications and competencies of staff; and c) Continuing professional development programs to enhance staff competencies.
	<p>3.2. Adequacy of the function's resources and appropriateness of its collective qualifications and competencies for executing its mandate.</p>
	<p>3.3. Sufficiency of staff development programs.</p>
4. Methodology and Practices	<p>4.1. Adequacy of the function's methodologies, practices and techniques, for collecting, analyzing and producing operating and financial information.</p>
	<p>4.2. Extent to which the reports, produced for the Board and Senior Management, are accurate, timely, presented using understandable formats, and include an appropriate level of key performance indicators.</p>
	<p>4.3. Adequacy of the function's capacity for preparing ad hoc reports for the Board and/or Senior Management on a timely basis.</p>
	<p>4.4. Adequacy of policies to review the function's methodology, practices, reports and key performance indicators regularly to ensure that they continue to meet the needs of the institution.</p>

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FINANCIAL ANALYSIS CHARACTERISTICS*	
Essential Elements	Criteria
5. Senior Management	5.1. Extent to which Senior Management approval is required for: a) The appointment and/or removal of the function head; and b) The function's mandate, resources, methodologies and practices.
	5.2. Adequacy of policies and practices to perform periodic, independent reviews of the function, and to communicate the results to Senior Management.

FINANCIAL ANALYSIS PERFORMANCE
<p>The quality of the Financial Analysis function's performance is demonstrated by its effectiveness in providing independent analysis and reporting of the institution's financial and operating results to Senior Management and the Board.</p> <p>The assessment will consider the effectiveness with which the Financial Analysis function provides timely, accurate and insightful information, that supports effective decision-making, to Senior Management and the Board. OSFI will look to indicators of effective performance to guide its judgement in the course of its supervisory activities. These activities may include: discussions with directors and management; discussions with external auditors and appointed actuaries; review of the information provided to Senior Management and the Board; etc.</p> <p>Examples of indicators that could be used to guide supervisory judgement include the extent to which Financial Analysis:</p> <ul style="list-style-type: none"> a) Produces reports, independently of the business areas being reported on, for Senior Management and the Board that are accurate, timely and understandable, and that include an appropriate analysis of key performance indicators, and highlights matters requiring Senior Management and Board attention; b) Proactively provides insightful recommendations on strategic and/or business opportunities; c) Responds quickly to requests for ad hoc reports; d) Actively engages the CEO and Board Chair or lead director in discussion to confirm that its reports and presentations continue to meet the needs of Senior Management and the Board; e) Proactively reconsiders, on a regular basis, the adequacy of management information systems to provide effective and timely decision-making.

* Examples of documentation that OSFI may review in formulating its assessment of the characteristics of the Financial Analysis function include: mandates, policies and procedure manuals; resource plans; job descriptions and personnel profiles; reports and presentations prepared for Senior Management and the Board or any of its committees; meeting minutes and information packages; and management information systems.